

Fraud Awareness Newsletter

Volume 98-18

December 1-15, 1998

Courtesy of the
Department of Defense
Office of the Inspector General
Defense Criminal Investigative Service
Central Field Office



Health Care Fraud

A superseding indictment was returned against Salvador Aganad Vivit, M.D., Des Plaines, IL, charging him with 17 counts of mail fraud. Vivit was previously indicted on four counts of mail fraud. Vivit allegedly submitted insurance claims for bogus medical treatment at his clinic, the Family Medical Center, Elmwood Park, IL. Vivit allegedly submitted bills for ultrasound therapy, when he did not have ultrasound equipment and submitted bills for treatment on dates when the patient was actually in Florida. Vivit was a former TRICARE and Medicare provider. The Chicago POD, is conducting the investigation with the U.S. Postal Inspection Service, the Federal Bureau of Investigation (FBI) and the IRS.



Theft

An indictment was returned against Randy Lee Johnson, former purchasing agent/estimator, Southeastern Electric Construction, Incorporated

To receive this newsletter electronically e-mail requests to 40SL@dodig.osd.mil. You can download the newsletter and the Adobe Acrobat Reader at www.dfsc.dla.mil/main/d/home_g.htm. This newsletter is based on press releases and public information.

Indictments

Kickbacks

An indictment was returned against Paul Kinter, Fairfax, VA, charging him with one count of conspiracy and two counts of bribery. Kinter was also previously charged in the Eastern District of Virginia with one count of Federal income tax evasion. Kinter was an employee of RGI, Incorporated (RGI), Falls Church, VA. In 1990, the Internal Revenue Service (IRS), through Scott King, a contracting officer's technical representative with the IRS, awarded an 8(a) contract worth \$57 million to Washington Data Systems (WDS), Landover, MD. The WDS then subcontracted to RGI for this effort, which required

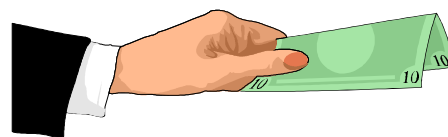
providing hardware and software maintenance computer services. A consultant to WDS provided marketing services for WDS on this contract and was paid 5 percent of the gross revenues generated by WDS. Kinter performed marketing services for RGI. An investigation uncovered an alleged illicit agreement between King, the consultant and Kinter. The scheme included payoffs in return for assurances WDS would be awarded contracts with the IRS under the 8(a) program and WDS would then provide RGI with a subcontract for the work. The 5 percent commission to the consultant, made in exchange for the contract guarantees, was then split between the three individuals. The payments to the consultant were expensed to WDS' overhead accounts and then subsequently billed against DoD cost reimbursement type contracts. The Baltimore Post of Duty (POD), is conducting the investigation jointly with the IRS and with audit assistance from the Defense Contract Audit Agency (DCAA).

(Southeastern), Dallas, TX, charging him with theft of Government property. In August 1992, the Army Corps of Engineers, Omaha Division, awarded a \$10,365,000 contract to Southeastern to upgrade the electrical distribution system on Ellsworth Air Force Base (AFB), SD. In December 1993, Johnson negotiated with T&R Electric Corporation, Coleman, SD, the sale of \$13,500 worth of electrical transformer components, directing that the proceeds be made payable to Chickasaw Electric Company (Chickasaw), Dallas, TX, instead of Southeastern. Chickasaw is owned and managed by Johnson's father-in-law, Randy Harrill. Several months after the sale was completed, Southeastern had to repurchase some of the same parts, at a higher cost, to complete the contract. Johnson subsequently left Southeastern's employ and became a vice president at Chickasaw. Johnson had been referred to TR Electric officials by the former Southeastern project manager for the Ellsworth AFB contract. The Sioux Falls POD, is conducting the investigation with the FBI, the IRS and the State of South Dakota Division of Criminal Investigations.

Environmental Crimes

A complaint was filed against JMP Plating (JMP), Northridge, CA, its owner Jorge Eduardo Coasaca and two JMP drivers, Luis Hernandez Pena and Gerardo Mendoza Aguire charging them with six counts each of illegal transportation of hazardous material, attempted illegal dis-

posal of hazardous waste, unlawful labeling and markings of hazardous waste containers, and transportation of hazardous waste by a nonregistered hauler. The JMP is an electroplating and painting facility with numerous Defense-related subcontracts for Navy and Air Force aircraft programs. All major DoD contracts require the contractor to legally dispose of any generated hazardous waste in accordance with state and Federal environmental regulations. On January 8, 1998, Los Angeles police officers observed a truck in Northridge, CA, suspected of being in the process of illegally disposing of hazardous waste. Los Angeles police officers identified Coasaca as the driver of that truck. When asked, Coasaca, accompanied by Pena and Aguire, stated the hazardous waste was generated at JMP and that he did not have the required Uniform Hazardous Waste Manifest necessary to transport the waste. The Long Beach RA, is conducting the investigation jointly with the Naval Criminal Investigative Service (NCIS) and the Los Angeles County Fire and Hazardous Materials Division.



Kickbacks

Robert Pennetti, Lynbrook, NY, pled guilty to illegal receipt of kickbacks and income tax evasion. Pennetti, former purchasing manager for Israel Aircraft Industries International (IAII), New York, NY, illegally received kickbacks from Royce Aerospace Materials Corporation (Royce), Farmingdale, NY, a former DoD subcontractor and supplier of raw materials such as aluminum and titanium. Between 1991 and 1995, Pennetti received approximately \$34,000 in cash kickback payments from Royce. In return, Pennetti provided Royce with the bidding information needed to be the lowest bidder on subcontracts awarded by IAII. Pennetti failed to report this additional income on his tax returns. The New York RA, conducted the investigation jointly with the IRS.

Product Substitution

Barry Knox, former employee of McCluskey Chevrolet-Geo, Incorporated (McCluskey), Cincinnati, OH, pled guilty to mail fraud. Knox was previously employed as McCluskey's Government Sales Manager. As such, he was responsible for obtaining and performing on DoD contracts on behalf of McCluskey to supply General Motors Corporation (GMC) manufactured pistons used in military vehicles. An investigation determined Knox purchased substitute, nonspecification pistons

that were not Original Equipment Manufactured by GMC. By direction, Knox caused RPA Packaging, Dayton, OH, to falsely label, package and deliver the pistons to the Government and then received payment for the parts. The Dayton RA, conducted the investigation.

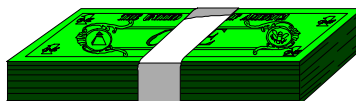


Impersonation

James Cody, president of several business supply companies in Florida and New Jersey, and Mark Rosenthal, president of Original Copy Supplies, Mount Laurel, NJ, each pled guilty to impersonating a Federal employee and aiding and abetting an offense against the United States. Beginning in 1993, Cody and Rosenthal impersonated employees of the DoD, the General Services Administration (GSA), the Department of Housing and Urban Development, and the IRS and, since 1982, purchased for resale at a Government discounted price over \$1 million in Xerox products. Cody unlawfully earned approximately \$60,000 in profits, while Rosenthal unlawfully earned about \$80,000. The New Jersey RA, conducted the investigation with the GSA and the IRS.

Kickbacks

Robert Berger, former president of Royce, Farmingdale, NY, pled guilty to conspiring to make kickback payments. Berger is currently serving a 38-month Federal sentence after pleading guilty to conspiring to make kickback payments, commit bankruptcy fraud and defraud the IRS. In a related case, Thomas Smith, president of Aero Specialties Supply Corporation and Aero Specialties Materials Corporation (Aero), Deer Park, NY, pled guilty to conspiring to make kickback payments. In June 1997, Berger and Smith established the Aero companies as a business similar to Royce to sell raw materials, such as aluminum and titanium, to DoD prime and subcontractors. As part of their arrangement, Berger was paid a percentage of the profits of the companies in exchange for his assistance in obtaining business. Between June 1997 and July 1998, Berger conspired with Smith to provide cash kickbacks to their customers. In return, they received bid information they needed to be awarded the contracts on which Aero was bidding. Many of the purchasing agents that were paid kickbacks by Smith and Berger were the same agents that Berger had pled guilty to making payments to in July 1997 when he was the president of Royce. The New York RA, conducted the investigation jointly with the IRS.



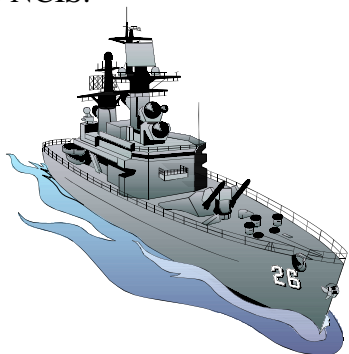
Kickbacks

Janice Lambertson, Holbrook, NY, pled guilty to tax evasion. An investigation disclosed that Lambertson, former independent salesperson for Royce, Farmingdale, NY, a former DoD subcontractor supplying raw materials such as aluminum and titanium to prime DoD contractors, illegally made kickback payments to her customers at the direction of her supervisor, Robert Berger. Lambertson left Royce in 1994 and became an independent salesperson for Yarde Metals, Bristol, CT. Since 1994, Lambertson has continued her cash kickback arrangement with her customers, has been underreporting her commission income and filing false tax returns. The New York RA, conducted the investigation jointly with the IRS.

Gratuities

Robert J. Collins, Jr., former port engineer for Bay Ship Management, Incorporated (BSM), Norfolk, VA, pled guilty to soliciting and receiving an unlawful gratuity. As part of a national undercover initiative into allegations of fraud and the payment of kickbacks and bribes in the maritime industry, a fictitious ship management and repair company, Coastal Marine Engineering Group (Coastal Marine), was set up by Federal law enforcement agencies. Coastal Marine established offices in several cities, including Norfolk, VA, and then openly sought the award of Government contracts for the management and repair of Government-owned vessels. The BSM is under contract with

the Military Sealift Command (MSC) to operate and maintain several Government-owned vessels. As a BSM port engineer, Collins oversaw the maintenance and operation of a MSC vessel in Norfolk, VA. His duties included awarding ship repair contracts to area ship repair subcontractors. From September 1994 to July 1997, Collins met with undercoer agents. During that time it was learned Collins conspired with area subcontractors to receive gratuities for the award of BSM subcontracts. Collins also participated in a scheme to produce complimentary high bids using the undercoer business and other subcontractor businesses without their consent to award subcontracts to a favored ship repair company. The Norfolk RA, conducted the investigation with the FBI and the NCIS.



Product Substitution

Keith Kesheneff, president, Meadowlands Electronics, Incorporated, pled guilty to one count of making false statements to the DoD. An investigation disclosed that from 1993 to 1996, Kesheneff sold nonconforming coaxial cable assemblies to the Defense General Supply Center, Richmond, VA. Kesheneff repre-

sented the coaxial cable assemblies as being manufactured by Monsco Enterprises when the assemblies were actually manufactured by Meadowlands Electronics. The New Jersey RA, conducted the investigation.

Sentences

Bribery

Steve Witzen, a former employee of the U.S. Army Tobyhanna Depot, Tobyhanna, PA, was sentenced to 6 months monitored home confinement, 200 hours community service, 5 years probation and an \$8,000 fine for conspiracy. In a related case, Terry White, an employee of the Veterans Administration Medical Center, East Orange, NJ, was sentenced to 3 years probation, a \$500 fine and a \$25 special assessment for accepting a bribe. Witzen accepted \$2,700 in cash and machinery from Roger C. Day, Jr., in exchange for placing 18 orders totaling \$194,000 with Day controlled companies; White accepted a thing of value in exchange for placing orders with Day's companies--All-American Products, Quality Products, and Consolidated Cutting Tool Company. Day previously pled guilty to similar charges and is scheduled for sentencing in late December 1998. The New Jersey RA, conducted the investigations with the Department of Veterans Affairs and the U.S. Postal Inspection Service.

Kickbacks

Saeid Shahri, owner of Coast Scientific, Incorporated (CSI), CSI and Pricilla Bray were sen-

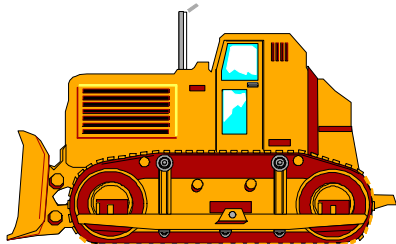
tenced for conspiring to commit mail fraud. Shahri was sentenced to 1 year confinement, 3 years supervised probation and ordered to pay \$150,000 in restitution; CSI was sentenced to 5 years probation, a \$400 special assessment and to pay a \$90,000 fine; and Bray was sentenced to 3 years supervised probation and a \$5,000 fine. Shahri, CSI and Bray, a Scripps Research Institute (Scripps) employee, devised a scheme to illegally obtain funds from Scripps. Scripps is a scientific research facility that is funded in part by DoD grants. An investigation determined Shahri submitted fraudulent medical supply invoices to Scripps based on fictitious purchase orders provided by Bray. Bray then further confirmed receipt of the medical supplies to the Scripps' Accounting Department. Shahri was able to obtain over \$170,000 from Scripps for medical supplies that were never delivered. Bray obtained a portion of that amount in kickbacks. The San Diego RA, conducted the investigations jointly with the FBI.



Bid Fraud

Barry S. Robertson, former GM-14 supervisory general engineer, Resident Office in Charge of Construction (ROICC), Nor-

folk Naval Shipyard (NNSY), Portsmouth, VA, was sentenced to 18 months supervised probation, 60 days home detention, to pay a \$5,000 fine and a \$25 special assessment. As a condition of his probation, Robertson is also prohibited from engaging in the solicitation, negotiation or award of Government contracts. Robertson previously pled guilty to conversion of Government property. An investigation revealed that between 1995 and 1997, Robertson gave Sun Bay Contracting, Incorporated (Sun Bay), a minority-owned contractor based in Virginia Beach, VA, the complete Government estimate of construction costs on three contracts for which the Government had solicited a bid from the company. The contracts were for construction and renovation work at area Navy installations serviced by the NNSY ROICC. In all three cases, the Government's contracting officer and contract negotiators were unaware that Robertson had provided Sun Bay with the Government estimates. Sun Bay's bid proposal in all three cases was for a contract price higher than the Government's estimate. The contracts awarded to Sun Bay are valued at \$1,035,988. The Norfolk RA, conducted the investigation with the NCIS and the FBI, with audit assistance from the DCAA.



Product Substitution

Diane Feliciano-Welpé, former senior manager, and Holly Mangels-Kulawy, former supervisor, Microelectronics Division, Residual Gas Analysis Group, Oneida Research Services, Incorporated (Oneida Research), Whitesboro, NY, were each sentenced to 1 year probation, 40 hours community service and a \$25 special assessment for conspiracy. Feliciano-Welpé conspired to file and cause the filing of false certifications to the DoD and the National Aeronautics and Space Administration (NASA); Mangels-Kulawy caused false certifications to be delivered on Joint Army Navy parts. Feliciano-Welpé and Mangels-Kulawy falsely certified that tests were done according to Military Standard 883, Test Method 1018.2, when they knew Oneida Research test technicians had actually used an "undocumented and unapproved method." During the trial of Oneida Research, Feliciano-Welpé and Mangels-Kulawy testified as Government witnesses. The company was convicted of submitting false statements and claims to the DoD and NASA and paid a \$50,000 fine. The Syracuse RA, conducted the investigation with NASA.

Civil Settlements

Overcharging

Mission Research Corporation (MRC), Santa Barbara, CA, reached a \$500,000 civil settlement with the U.S. Attorney's Office, District of New Mexico.

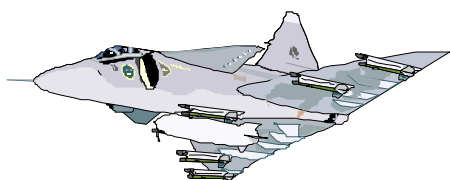
The settlement resolves issues relating to inappropriate lease costs that were charged to the United States in its DoD contracts with MRC. An investigation was initiated based on information obtained from the Santa Barbara Branch Office of the DCAA in Goleta, CA, pertaining to a lease contract MRC had entered into with the KG Partnership (KG), Albuquerque, NM. The investigation/audit disclosed MRC failed to perform the capital versus operating lease analysis at the inception of the lease and accounted for the lease as an operating lease, inappropriately increasing the lease costs that were charged to DoD contracts. The agreement fully compensates the United States for damages, but does not preclude administrative remedies such as suspension and debarment. The Albuquerque POD, conducted the investigation.



Product Substitution

The General Electric Aircraft Engine Company, Cincinnati, OH, agreed to pay the Government \$250,000 to settle claims under the False Claims Act. These claims arose from a DoD-funded contract between the Government of Israel and Gen-

eral Electric Company (GE) for the "remanufacture" of jet aircraft engines for the Israeli Air Force. Israel Aircraft Industries, a wholly owned subsidiary of the Government of Israel, was GE's subcontractor. Although GE delivered new replacement parts to Israel, as required by the contract, GE's subcontractor, Israel Aircraft Industries, in some cases "remanufactured" engines with used or remanufactured parts. The DoJ contended that in order to conform with the DoD funding requirements of the Defense Security Assistance Agency (DSAA), the contract required both the installation of new parts and repair work to qualify the engines as "remanufactured." The DSAA normally does not fund overseas repair work. The European POD, conducted the investigation jointly with the Israel Ministry of Defense.



Overcharges

A civil settlement agreement was reached between the DoJ and the Gard Corporation (Gard), a Kansas City based blender and supplier of oil products to the DoD, to settle false claims allegations. Gard was ordered to pay \$150,000 to the Government and \$7,500 to a private citizen who filed the original complaint against Gard. An investigation disclosed that Gard

charged the DoD a 6 percent handling fee above actual freight costs on four DoD contracts in 1995 and 1996. In addition, Gard used an expired license on a DoD contract in 1993. The Kansas City RA, conducted the investigation with the FBI.

Double Billing

Charles J. Turner, Ph.D., owner and president of Oasis Research Center, Incorporated (Oasis), Tucson, AZ, agreed to repay \$217,890 to the Defense Finance and Accounting Service and \$8,058 to the U.S. Treasury for mischarging the incurred cost of an unawarded Defense Advanced Research Projects Agency (DARPA) contract to a previously awarded U.S. Army Topographical Engineering Center (TEC) contract. The TEC and DARPA are funding the development of specialized computer software used for battle-field imagery interpretation such as the identification of airborne SCUD missiles. The recovery is a result of a Demand for Payment notice from the Administrative Contracting Officer, Defense Contract Management Center Phoenix, AZ (Southern Arizona Team), which identified the indebtedness of Turner and Oasis to the DoD for identical billings and then receiving payment from both DARPA and TEC. The Tucson POD, conducted the investigation jointly with the U.S. Army Criminal Investigation Command.

Investment Fraud

A civil settlement agreement was reached between the Government and officers of Ameri-

can Fidelity Life Insurance Company (American Fidelity), Pensacola, FL, and its affiliated company, Trans World Assurance Company, San Mateo, CA. The dollar amount will be determined through a financial accounting of records provided by the two companies. American Fidelity and Trans World Assurance conspired to defraud the DoD and individual Service members by circumventing military regulations governing the sale of insurance policies. The companies and their sales agents were representing insurance policies as being "investments" or "savings plans" rather than insurance. Under terms of the settlement, the companies will immediately stop selling insurance policies and refund premiums to 215 military Service members located in the Western District of Washington. In addition, repeat sales offenders are to be terminated by the companies. The agreement further requires the companies to provide the Government a complete accounting of the refunds and provide full cooperation with any future investigations concerning insurance sales. The conducted the investigation with the Washington State Insurance Commissioner's Office.





To report suspected criminal activity involving to Department of Defense or to comment on this newsletter please contact the nearest Defense Criminal Investigative Service office. The addresses and telephone numbers of the offices that are part of the Central Field Office are listed below.

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